



**uMngeni Municipality**

**Annual Financial Statements  
for the year ended 30 June 2019**

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **General Information**

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<b>Legal form of entity</b>	uMngeni Municipality
<b>Mayoral committee</b>	
Mayor	Mr S Sokhela
Councillors	Cllr GT Dlamini Cllr NF Buthelezi Cllr PA Passmoor Cllr JA Mkhasibe Cllr SK Pillay Cllr SD Nkuna Cllr JE Holmes Cllr NN Mlotshwa Cllr BA Zuma Cllr FT Cele Cllr CRW Millar Cllr NJ Lewis Cllr SM Ndlovu Cllr SS Khumalo Cllr CT Mthalane Cllr SS Sibiya Cllr NE Ngcongo Cllr QSB Buthelezi Cllr HM Lake Cllr T Sikhakhane Cllr S Mnikathi Cllr S Zondi
<b>Grading of local authority</b>	Three
<b>Chief Finance Officer</b>	Mr SZ Gwala
<b>Accounting Officer</b>	Ms T Cibane
<b>Registered office</b>	Corner Dicks and Somme Streets Howick 3290
<b>Postal address</b>	P O Box 5 Howick 3290
<b>Banker</b>	ABSA Bank
<b>Auditor</b>	Auditor General

# **uMngeni Municipality**

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

## **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

### **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, she sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is dependent on internal generated funds and Government grants to continue funding its operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the uMngeni Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on page 5 to 68 which have been prepared on the going concern basis, were approved by the Accounting Officer on the 30 August 2019 and were signed by:



**Ms T Cibane**  
**Accounting Officer**

## **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

### **Approval of Annual Financial Statements**

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I am responsible for the preparation of these Annual Financial Statements, which are set on page 5-68 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality..

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for the loss of office, if any, as disclosed in note 32 of these Annual Financial Statements are within the Upper Limits of the framework envisaged in section 129 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Governments Determination in accordance with this.

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**Ms T Cibane**  
**Accounting Officer**

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

		2019	2018 Restated*
	Note(s)		
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	7	2,160,720	3,103,551
Receivables from non-exchange transactions	8	15,228,864	4,970,083
VAT receivable	9	2,368,340	5,096,942
Consumer debtors	10	92,099,979	74,373,569
Cash and cash equivalents	11	25,255,179	11,985,406
		<b>137,113,082</b>	<b>99,529,551</b>
<b>Non-Current Assets</b>			
Investment property	2	4,407,630	4,525,591
Property, plant and equipment	3	1,290,072,130	1,315,116,464
Intangible assets	4	118,962	229,753
Heritage assets	5	5,392,615	5,392,615
Receivables from exchange transactions	7	3,646,368	3,500,000
		<b>1,303,637,705</b>	<b>1,328,764,423</b>
Non-Current Assets		1,303,637,705	1,328,764,423
Current Assets		137,113,082	99,529,551
<b>Total Assets</b>		<b>1,440,750,787</b>	<b>1,428,293,974</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Annuity Loans	16	3,779,564	3,635,806
Finance lease obligation	14	1,204,406	1,101,061
Payables from exchange transactions	18	61,701,491	49,300,600
Consumer deposits	19	1,874,688	1,722,711
Employee benefit obligation	6	1,663,000	1,585,000
Unspent conditional grants and receipts	15	6,076,235	4,266,434
		<b>76,299,384</b>	<b>61,611,612</b>
<b>Non-Current Liabilities</b>			
Annuity Loans	16	16,892,641	20,184,872
Finance lease obligation	14	2,267,339	3,485,356
Employee benefit obligation	6	29,196,000	27,911,000
Provisions	17	39,931,792	37,455,388
		<b>88,287,772</b>	<b>89,036,616</b>
Non-Current Liabilities		88,287,772	89,036,616
Current Liabilities		76,299,384	61,611,612
<b>Total Liabilities</b>		<b>164,587,156</b>	<b>150,648,228</b>
Assets		1,440,750,787	1,428,293,974
Liabilities		(164,587,156)	(150,648,228)
<b>Net Assets</b>		<b>1,276,163,631</b>	<b>1,277,645,746</b>
Accumulated surplus		1,276,163,631	1,277,645,747

\* See Note 44 & 43

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

		2019	2018 Restated*
	Note(s)		
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	73,941,107	69,773,178
Rental of facilities and equipment	22	1,078,031	703,996
Licences and permits	24	3,522,882	3,612,136
Commissions received		74,439	60,402
Other income	25	4,072,046	5,110,635
Interest received - investment	26	2,266,918	1,867,601
<b>Total revenue from exchange transactions</b>		<b>84,955,423</b>	<b>81,127,948</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	27	190,156,246	176,699,785
Property rates - penalties imposed	27	10,917,488	8,598,498
<b>Transfer revenue</b>			
Government grants & subsidies	28	104,809,986	99,212,555
Fines, Penalties and Forfeits	23	870,110	2,451,150
<b>Total revenue from non-exchange transactions</b>		<b>306,753,830</b>	<b>286,961,988</b>
		<b>84,955,423</b>	<b>81,127,948</b>
		<b>306,753,830</b>	<b>286,961,988</b>
<b>Total revenue</b>	20	<b>391,709,253</b>	<b>368,089,936</b>
<b>Expenditure</b>			
Employee related costs	29	(108,126,540)	(104,451,484)
Remuneration of councillors	30	(8,712,642)	(8,914,273)
Depreciation and amortisation	31	(51,312,591)	(45,090,244)
Finance costs	32	(2,334,709)	(2,635,179)
Debt Impairment	33	(16,879,891)	(16,667,786)
Collection costs		(1,910,235)	(1,617,477)
Bulk purchases	34	(107,297,746)	(104,708,075)
Contracted services	35	(25,351,830)	(22,938,491)
General expenses	36	(74,822,732)	(77,205,219)
<b>Total expenditure</b>		<b>(396,748,916)</b>	<b>(384,228,228)</b>
Total revenue		391,709,253	368,089,936
Total expenditure		(396,748,916)	(384,228,228)
Actuarial gains/losses		1,329,000	-
Operating surplus/deficit		-	-
Deficit before taxation		(5,039,663)	(16,138,292)
<b>Deficit for the year</b>		<b>(5,039,663)</b>	<b>(16,138,292)</b>

\* See Note 44 & 43

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Changes in Net Assets

	Revaluation reserve	Capital replacement reserve	Total reserves	Accumulated surplus	Total net assets
<b>Balance at 01 July 2017</b>	<b>127,470,628</b>	<b>15,108,143</b>	<b>142,578,771</b>	<b>604,618,328</b>	<b>747,197,099</b>
Changes in net assets					
Movement on Accumulated Surplus	-	-	-	17,424,967	17,424,967
Prior Year Errors	-	-	-	529,161,973	529,161,973
Net income (losses) recognised directly in net assets	-	-	-	546,586,940	546,586,940
Surplus for the year	-	-	-	(16,138,292)	(16,138,292)
Total recognised income and expenses for the year	-	-	-	530,448,648	530,448,648
Recognition of Revaluation Surplus	(127,470,628)	-	(127,470,628)	127,470,628	-
DErecognition of Housing Operating Account	-	(15,108,143)	(15,108,143)	15,108,143	-
Total changes	(127,470,628)	(15,108,143)	(142,578,771)	673,027,419	530,448,648
<b>Restated* Balance at 01 July 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,213,107,592</b>	<b>1,213,107,592</b>
Changes in net assets					
Movement on Accumulated Surplus	-	-	-	68,095,702	68,095,702
Net income (losses) recognised directly in net assets	-	-	-	68,095,702	68,095,702
Surplus for the year	-	-	-	(5,039,663)	(5,039,663)
Total recognised income and expenses for the year	-	-	-	63,056,039	63,056,039
Total changes	-	-	-	63,056,039	63,056,039
<b>Balance at 30 June 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,276,163,631</b>	<b>1,276,163,631</b>
Note(s)	12	13			

\* See Note 44 & 43



# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

		2019	2018 Restated*
	Note(s)		
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services (rates and electricity)		275,014,841	257,203,699
Grants		104,809,986	99,294,616
Interest revenue		2,266,918	1,928,003
Other receipts		8,747,398	8,360,776
Traffic Fines		171,146	2,882,218
		<u>391,010,289</u>	<u>369,669,312</u>
<b>Payments</b>			
Employee costs		(108,126,540)	(103,710,185)
Suppliers		(230,394,620)	(169,533,335)
Finance costs		(2,334,709)	(2,635,178)
Remuneration of Councillors		(8,712,642)	(8,914,273)
		<u>(349,568,511)</u>	<u>(284,792,971)</u>
Total receipts		391,010,289	369,669,312
Total payments		(349,568,511)	(284,792,971)
<b>Net cash flows from operating activities</b>	38	<u><b>41,441,778</b></u>	<u><b>84,876,341</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(26,153,407)	(67,010,849)
Proceeds from sale of property, plant and equipment	3	-	471,592
<b>Net cash flows from investing activities</b>		<u><b>(26,153,407)</b></u>	<u><b>(66,539,257)</b></u>
<b>Cash flows from financing activities</b>			
Decrease in borrowings		(3,148,473)	(2,977,755)
Movement in consumer deposits		151,977	-
Increase in finance lease liability		977,898	(18,727,360)
<b>Net cash flows from financing activities</b>		<u><b>(2,018,598)</b></u>	<u><b>(21,705,115)</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>13,269,773</b>	<b>(3,368,031)</b>
Cash and cash equivalents at the beginning of the year		11,985,406	15,353,437
<b>Cash and cash equivalents at the end of the year</b>	11	<u><b>25,255,179</b></u>	<u><b>11,985,406</b></u>

\* See Note 44 & 43

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges- electricity	84,353,189	5,358,396	89,711,585	66,739,185	(22,972,400)	51.1
Service charges- refuse	6,187,340	-	6,187,340	7,201,922	1,014,582	51.2
Rental of facilities and equipment	801,938	(226)	801,712	1,078,031	276,319	51.3
Licences and permits	3,885,717	682,000	4,567,717	3,522,882	(1,044,835)	51.4
Other income	5,493,530	(749,346)	4,744,184	4,072,046	(672,138)	151.5
Interest received - investment	2,458,734	(850,000)	1,608,734	2,266,918	658,184	51.6
<b>Total revenue from exchange transactions</b>	<b>103,180,448</b>	<b>4,440,824</b>	<b>107,621,272</b>	<b>84,880,984</b>	<b>(22,740,288)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	199,345,530	534,250	199,879,780	190,156,246	(9,723,534)	51.7
Property rates - penalties imposed	9,469,938	-	9,469,938	10,917,488	1,447,550	51.8
<b>Transfer revenue</b>						
Government grants & subsidies	75,373,000	1,376,032	76,749,032	104,809,986	28,060,954	51.9
Transfers recognised - trading	4,449,202	(4,004,734)	444,468	870,110	425,642	51.10
<b>Total revenue from non-exchange transactions</b>	<b>288,637,670</b>	<b>(2,094,452)</b>	<b>286,543,218</b>	<b>306,753,830</b>	<b>20,210,612</b>	
'Total revenue from exchange transactions'	103,180,448	4,440,824	107,621,272	84,880,984	(22,740,288)	
'Total revenue from non-exchange transactions'	288,637,670	(2,094,452)	286,543,218	306,753,830	20,210,612	
<b>Total revenue</b>	<b>391,818,118</b>	<b>2,346,372</b>	<b>394,164,490</b>	<b>391,634,814</b>	<b>(2,529,676)</b>	
<b>Expenditure</b>						
Personnel	(109,744,773)	(4,220,075)	(113,964,848)	(108,126,540)	5,838,308	51.11
Remuneration of councillors	(9,517,434)	446,647	(9,070,787)	(8,712,642)	358,145	
Depreciation and impairment	(32,339,633)	-	(32,339,633)	(51,312,591)	(18,972,958)	51.12
Finance costs	(5,696,563)	-	(5,696,563)	(2,334,709)	3,361,854	51.13
Debt Impairment	(9,877,588)	-	(9,877,588)	(16,879,891)	(7,002,303)	51.14
Collection costs	(1,274,408)	(635,958)	(1,910,366)	(1,910,235)	131	
Bulk purchases	(110,422,400)	-	(110,422,400)	(107,297,746)	3,124,654	51.15
Contracted Services	(23,769,310)	(4,479,674)	(28,248,984)	(25,351,830)	2,897,154	
Grant Expenditure	(10,770,000)	-	(10,770,000)	-	10,770,000	
Sale of goods/Inventory	-	-	-	-	-	
Other Materials	(1,332,263)	(58,233)	(1,390,496)	(624,909)	765,587	
General Expenses	(76,863,687)	6,390,886	(70,472,801)	(74,197,823)	(3,725,022)	
<b>Total expenditure</b>	<b>(391,608,059)</b>	<b>(2,556,407)</b>	<b>(394,164,466)</b>	<b>(396,748,916)</b>	<b>(2,584,450)</b>	
	391,818,118	2,346,372	394,164,490	391,634,814	(2,529,676)	
	(391,608,059)	(2,556,407)	(394,164,466)	(396,748,916)	(2,584,450)	
<b>Operating deficit</b>	<b>210,059</b>	<b>(210,035)</b>	<b>24</b>	<b>(5,114,102)</b>	<b>(5,114,126)</b>	

**uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Transfers recognised - capital	27,646,000	10,642,068	<b>38,288,068</b>	26,168,611	<b>(12,119,457)</b>	
	210,059	(210,035)	<b>24</b>	(5,114,102)	<b>(5,114,126)</b>	
	27,646,000	10,642,068	<b>38,288,068</b>	26,168,611	<b>(12,119,457)</b>	
<b>Surplus before taxation</b>	<b>27,856,059</b>	<b>10,432,033</b>	<b>38,288,092</b>	<b>21,054,509</b>	<b>(17,233,583)</b>	
Deficit before taxation	27,856,059	10,432,033	<b>38,288,092</b>	21,054,509	<b>(17,233,583)</b>	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>27,856,059</b>	<b>10,432,033</b>	<b>38,288,092</b>	<b>21,054,509</b>	<b>(17,233,583)</b>	

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Property Rates	175,424,066	470,140	175,894,206	201,073,734	25,179,528	
Service Charges	79,095,111	5,295,943	84,391,054	73,941,107	(10,449,947)	
Other Revenue	22,353,749	(8,882,562)	13,471,187	8,918,544	(4,552,643)	
Interest income	2,458,734	(850,000)	1,608,734	2,266,918	658,184	
Government-Operating	75,373,000	1,050,000	76,423,000	75,231,132	(1,191,868)	
Government Capital	27,646,000	7,251,000	34,897,000	29,578,854	(5,318,146)	
	<b>382,350,660</b>	<b>4,334,521</b>	<b>386,685,181</b>	<b>391,010,289</b>	<b>4,325,108</b>	
<b>Payments</b>						
Suppliers and employees	(340,300,188)	1,417,840	(338,882,348)	(345,315,116)	(6,432,768)	
Finance costs	(6,801,448)	1,104,885	(5,696,563)	(2,334,427)	3,362,136	
transfers and grants	(2,289,202)	(120,307)	(2,409,509)	(1,918,968)	490,541	
	<b>(349,390,838)</b>	<b>2,402,418</b>	<b>(346,988,420)</b>	<b>(349,568,511)</b>	<b>(2,580,091)</b>	
Total receipts	382,350,660	4,334,521	386,685,181	391,010,289	4,325,108	
Total payments	(349,390,838)	2,402,418	(346,988,420)	(349,568,511)	(2,580,091)	
<b>Net cash flows from operating activities</b>	<b>32,959,822</b>	<b>6,736,939</b>	<b>39,696,761</b>	<b>41,441,778</b>	<b>1,745,017</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(34,500,190)	(10,342,068)	(44,842,258)	(26,153,407)	18,688,851	
Proceeds on disposal of PPE	534,250	(534,250)	-	-	-	
<b>Net cash flows from investing activities</b>	<b>(33,965,940)</b>	<b>(10,876,318)</b>	<b>(44,842,258)</b>	<b>(26,153,407)</b>	<b>18,688,851</b>	
<b>Cash flows from financing activities</b>						
Repayment of annuity loans	(3,124,354)	-	(3,124,354)	(3,148,473)	(24,119)	
Movement in consumer deposits	-	-	-	151,977	151,977	
Movement in Finance Lease Liability	-	-	-	977,898	977,898	
<b>Net cash flows from financing activities</b>	<b>(3,124,354)</b>	<b>-</b>	<b>(3,124,354)</b>	<b>(2,018,598)</b>	<b>1,105,756</b>	
Net increase/(decrease) in cash and cash equivalents	(4,130,472)	(4,139,379)	(8,269,851)	13,269,773	21,539,624	
Cash and cash equivalents at the beginning of the year	9,635,208	2,350,197	11,985,405	11,985,406	1	
<b>Cash and cash equivalents at the end of the year</b>	<b>5,504,736</b>	<b>(1,789,182)</b>	<b>3,715,554</b>	<b>25,255,179</b>	<b>21,539,625</b>	

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### **1.2 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### **Cost model**

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

<b>Item</b>	<b>Useful life</b>
Property - land	indefinite
Property - buildings	30 years

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.2 Investment property (continued)

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure for repairs and maintainance on investment property in the notes to the annual financial statements (see note 2).

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its cost as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at cost.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average useful life
Land		indefinite
Buildings	Straight line	15-30 years

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# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

Landfill site	Straight line	02-15 years
Plant and machinery	Straight line	02-30 years
Furniture and fixtures	Straight line	04-10 years
Motor vehicles	Straight line	03 -15 years
IT equipment	Straight line	03-05 years
Intangibles	Straight line	03-10 years
Infrastructure Asset		
Roads & paving	Straight line	05-80 years
Roads & stormwater	Straight line	20-60 years
Electricity	Straight line	15 - 50 years
Investment property	Straight line	30 years
Heritage		Indefinite

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

### 1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

## **Accounting Policies**

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### **1.4 Site restoration and dismantling cost (continued)**

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### **1.5 Intangible assets**

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its cost as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.



# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.5 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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Item	Depreciation method	Average useful life
Computer software, other	Straight line	3-10 years

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The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.6 Heritage assets (continued)**

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 5).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 5).

#### **Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### **Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### **Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

#### **Impairment**

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### **Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### **Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### **1.7 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.7 Financial Instruments (continued)**

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.7 Financial instruments (continued)

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

## **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

### **Accounting Policies**

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#### **1.7 Financial Instruments (continued)**

##### **Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

##### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

#### **Derecognition**

##### **Financial assets**

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.7 Financial Instruments (continued)**

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### **1.8 Tax**

#### **Value Added Taxation**

The municipality is registered with SARS for VAT on the cash basis in accordance with Section 15(2)(a) of the Value Added Tax Act, No 81 of 1991.

### **1.9 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### **Finance leases - lessor**

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.9 Leases (continued)**

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.10 Impairment of cash-generating assets and non-cash generating assets**

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:



# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.10 Impairment of cash-generating assets and non-cash generating assets (continued)**

#### **Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### **Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### **Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### **1.11 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.11 Provisions and contingencies (continued)**

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### **1.12 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. The impairment for the trade and other receivables is recalculating using the ageing as : 30% days 15, 90 days 30%, 120 days 30% and 150 days 55% based on historical loss ratio.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.12 Revenue from exchange transactions (continued)**

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

#### **Interest**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### **1.13 Revenue from non-exchange transactions**

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.13 Revenue from non-exchange transactions (continued)**

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### **1.14 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.15 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.15 Borrowing costs (continued)**

#### **Change in accounting policy due to amendments to GRAP 5 - Borrowing costs**

The adoption of amendments to GRAP 5 - Borrowing costs resulted in a change in accounting policy during the current period. The effect of the change is that borrowing costs are now expensed when incurred, and this change is applied prospectively since . The effective date of the amendments was .

Borrowing costs, incurred both before and after the effective date of this amendment and related to qualifying assets for which the commencement date for capitalisation is prior to the effective date of this Standard, is recognised in accordance with the municipality's previous accounting policy.

### **1.16 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.17 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.18 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.19 Irregular expenditure**

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.19 Irregular expenditure (continued)**

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.20 Budget information**

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 51

### **1.21 Related parties**

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

## uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

### Accounting Policies

#### 1.21 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### Notes to the Annual Financial Statements

#### 2. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	6,122,000	(1,714,370)	4,407,630	6,122,000	(1,596,409)	4,525,591

#### Reconciliation of Investment property - 2019

	Opening balance	Depreciation	Total
Investment property	4,525,591	(117,961)	4,407,630

#### Reconciliation of Investment property - 2018

	Opening balance	Depreciation	Total
Investment property	4,791,293	(265,702)	4,525,591

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Maintenance of investment property

##### The following maintenance costs were incurred:

Corrective maintenance	22,100	62,963
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#### Amounts recognised in surplus or deficit

Rental revenue from investment property	1,078,031	703,996
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##### From investment property that generated rental revenue

Direct operating expenses (excluding repairs and maintenance)	265,081	276,233
Repairs and maintenance	22,100	62,963
	<b>287,181</b>	<b>339,196</b>

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	159,296,943	-	159,296,943	159,296,943	-	159,296,943
Buildings	168,701,160	(65,269,007)	103,432,153	166,905,510	(58,988,319)	107,917,191
Landfill Site	27,989,497	(14,662,790)	13,326,707	27,969,497	(12,326,208)	15,643,289
Furniture and fittings	5,468,935	(3,826,664)	1,642,271	5,399,606	(3,495,645)	1,903,961
Motor vehicles	7,364,978	(5,648,837)	1,716,141	7,440,903	(5,259,128)	2,181,775
Motor vehicles - leased	6,514,423	(3,111,999)	3,402,424	6,514,423	(1,930,150)	4,584,273
Computer equipment	4,529,756	(2,825,041)	1,704,715	4,375,760	(2,686,787)	1,688,973
Electrical	168,206,326	(51,226,283)	116,980,043	165,561,885	(48,456,620)	117,105,265
Leased Equipment	192,643	(127,045)	65,598	192,643	(92,247)	100,396
Assets under construction	104,267,644	-	104,267,644	99,585,099	-	99,585,099
Roads and storm water network	971,316,430	(189,253,112)	782,063,318	955,313,970	(152,906,213)	802,407,757
Machinery and equipment	7,831,890	(5,657,717)	2,174,173	8,034,058	(5,332,516)	2,701,542
<b>Total</b>	<b>1,631,680,625</b>	<b>(341,608,495)</b>	<b>1,290,072,130</b>	<b>1,606,590,297</b>	<b>(291,473,833)</b>	<b>1,315,116,464</b>



# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Donated Asset	Transfers	Write offs	Depreciation	Impairment loss	Total
Land	159,296,943	-	-	-	-	-	-	159,296,943
Buildings	107,917,191	-	-	1,795,650	-	(6,280,688)	-	103,432,153
Landfill Site	15,643,289	20,000	-	-	-	(2,336,582)	-	13,326,707
Furniture and office equipment	1,903,961	266,340	4,796	-	(47,996)	(478,823)	(10,978)	1,637,300
Motor vehicles	2,181,775	-	-	-	(446)	(465,188)	-	1,716,141
Motor vehicles - leased	4,584,273	-	-	-	-	(1,181,849)	-	3,402,424
Computer equipment	1,688,973	500,352	-	-	(24,476)	(472,263)	-	1,692,586
Electricity	117,105,265	-	-	2,644,441	-	(2,555,533)	(214,130)	116,980,043
Leased Equipment	100,396	-	-	-	-	(34,798)	-	65,598
Assets under construction	99,585,099	24,933,552	-	(20,251,007)	-	-	-	104,267,644
Roads and Storm water network	802,407,757	191,543	-	15,810,916	-	(23,621,418)	(12,725,480)	782,063,318
Machinery and Equipment	2,701,542	256,824	-	-	(76,521)	(690,537)	(15,573)	2,175,735
	<b>1,315,116,464</b>	<b>26,168,611</b>	<b>4,796</b>	<b>-</b>	<b>(149,439)</b>	<b>(38,117,679)</b>	<b>(12,966,161)</b>	<b>1,290,072,130</b>

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Prior Year Correction	Depreciation	Impairment loss	Total
Land	124,626,348	-	-	-	34,670,595	-	-	159,296,943
Buildings	53,715,452	-	-	-	57,181,494	(2,979,755)	-	107,917,191
Landfill Site	-	18,643,497	-	-	-	(3,000,208)	-	15,643,289
Furniture and office equipment	2,586,248	544,747	-	-	(624,057)	(598,006)	(4,971)	1,903,961
Motor vehicles	3,897,169	-	-	-	(989,774)	(725,620)	-	2,181,775
Motor vehicles - leased	4,519,600	1,574,614	(471,592)	-	3,562	(1,041,911)	-	4,584,273
Computer equipment	1,614,560	429,263	-	-	72,978	(415,699)	(12,129)	1,688,973
Electrical	46,837,153	-	-	-	72,968,357	(2,700,245)	-	117,105,265
Leased Equipment	152,550	-	-	-	-	(52,154)	-	100,396
Assets under construction	91,535,750	36,143,666	-	(28,094,317)	-	-	-	99,585,099
Roads and storm water network	434,454,817	28,094,318	-	-	372,728,425	(32,869,803)	-	802,407,757
Other property, plant and equipment	1,281,716	224,241	-	-	1,509,698	(312,723)	(1,390)	2,701,542
	<b>765,221,363</b>	<b>85,654,346</b>	<b>(471,592)</b>	<b>(28,094,317)</b>	<b>537,521,278</b>	<b>(44,696,124)</b>	<b>(18,490)</b>	<b>1,315,116,464</b>

#### Other information

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2019

	Buildings	Roads & Stormwater	Electrical	Total
Opening balance	68,596,880	32,280,296	2,471,218	103,348,394
Additions	12,799,201	11,597,777	748,117	25,145,095
Write offs & Disposals	(3,763,295)	-	-	(3,763,295)
Transferred to completed items	(1,795,650)	(15,810,917)	(2,644,441)	(20,251,008)
	<b>75,837,136</b>	<b>28,067,156</b>	<b>574,894</b>	<b>104,479,186</b>

#### Reconciliation of Work-in-Progress 2018

	Buildings	Roads & Stormwater	Electrical	Total
Opening balance	53,725,650	37,235,207	574,895	91,535,752
Additions	14,871,230	23,139,406	1,896,323	39,906,959
Transferred to completed items	-	(28,094,317)	-	(28,094,317)
	<b>68,596,880</b>	<b>32,280,296</b>	<b>2,471,218</b>	<b>103,348,394</b>

## uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand

#### 3. Property, plant and equipment (continued)

##### Maintenance of property, plant and equipment

##### Maintenance of property, plant and equipment by condition - 2019

	Preventative Maintenance Total	Corrective Maintenance Planned	Corrective Maintenance Total	Total
Buildings	-	1,123,533	1,123,533	1,123,533
Motor vehicles	-	3,993,953	3,993,953	3,993,953
Electrical	-	6,787,379	6,787,379	6,787,379
Roads and Stormwater	-	6,672,622	6,672,622	6,672,622
Other equipment	-	29,088	29,088	29,088
	-	<b>18,606,575</b>	<b>18,606,575</b>	<b>18,606,575</b>

##### Maintenance of property, plant and equipment by condition - 2018

	Preventative Maintenance Total	Corrective Maintenance Planned	Corrective Maintenance Total	Total
Buildings	-	3,231,764	3,231,764	3,231,764
Motor vehicles	-	2,186,029	2,186,029	2,186,029
Electrical	-	7,367,562	7,367,562	7,367,562
Roads and Stormwater	-	18,575,634	18,575,634	18,575,634
Other equipment	-	25,298	25,298	25,298
	-	<b>31,386,287</b>	<b>31,386,287</b>	<b>31,386,287</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Notes to the Annual Financial Statements**

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2019

2018

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### **3. Property, plant and equipment (continued)**

Electricity assets to the carrying value of R 16 822 982 is still to be transferred to Eskom, as these assets are not in the jurisdiction of the municipality. Written agreement and the date of transfer is still to be determined between the two parties.

Roads and stormwater assets to the carrying value of R 54 584 287 is still to be transferred to Department of Transport, as these assets are not in the jurisdiction of the municipality. Written agreement and the date of transfer is still to be determined between two parties.

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
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### 4. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	522,551	(403,589)	118,962	522,550	(292,797)	229,753

#### Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	229,753	(110,791)	118,962

#### Reconciliation of intangible assets - 2018

	Opening balance	Other changes, movements	Amortisation	Total
Computer software	321,301	15,428	(106,976)	229,753

### 5. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	60,000	-	60,000	60,000	-	60,000
Historical monuments	4,842,615	-	4,842,615	4,842,615	-	4,842,615
Area of land historical value	490,000	-	490,000	490,000	-	490,000
<b>Total</b>	<b>5,392,615</b>	<b>-</b>	<b>5,392,615</b>	<b>5,392,615</b>	<b>-</b>	<b>5,392,615</b>

#### Reconciliation of heritage assets 2019

	Opening balance	Total
Art Collections, antiquities and exhibits	60,000	60,000
Historical monuments	4,842,615	4,842,615
Area of land historical value	490,000	490,000
	<b>5,392,615</b>	<b>5,392,615</b>

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Art Collections, antiquities and exhibits	60,000	60,000
Historical monuments	4,842,615	4,842,615
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Area of Land Historical value	490,000	490,000
	<b>5,392,615</b>	<b>5,392,615</b>

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

2018

### 6. Employee benefit obligations

#### Post retirement benefit plan

The Council operates a defined medical aid benefit scheme for the benefit of its employees. Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid contribution after retirement.

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(29,496,000)	(26,719,000)
Present value of the defined benefit obligation-partly or wholly funded	(1,296,000)	(1,364,000)
Fair value of reimbursement rights	(1,573,000)	(3,121,000)
Benefits Paid	1,506,000	1,708,000
	<b>(30,859,000)</b>	<b>(29,496,000)</b>
Non-current liabilities	(29,196,000)	(27,911,000)
Current liabilities	(1,663,000)	(1,585,000)
	<b>(30,859,000)</b>	<b>(29,496,000)</b>

The fair value of plan assets includes:

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	16,588,507	16,588,507
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#### Net expense recognised in the statement of financial performance

Current Service Cost	1,296,000	1,364,000
Interest Costs	2,902,000	2,727,000
Actuarial (gains)/Losses	(1,329,000)	394,000
	<b>2,869,000</b>	<b>4,485,000</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.94 %	8.94 %
Expected rate of return on assets	8.05 %	8.05 %
Expected increase in salaries	0.82 %	0.82 %
Expected pension increases	7.05 %	7.05 %

Additional text

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>6. Employee benefit obligations (continued)</b>		
<b>Defined contribution plan - Post Retirement Medical Aid Plan</b>		
<p>The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees. Post retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid contribution after retirement. Post-retirement medical aid subsidy for qualifying employees is 60% of the applicable medical aid.</p> <p>The Post-retirement medical aid for qualifying pensioners is 60% or 67% of the total monthly contribution to the applicable medical aid. Widow (er) and orphans of eligible in-service members are not entitled to receive a subsidy on and after the death in-service of an employee.</p> <p>The most recent actuarial valuation was performed on the 30 June 2019 by Zaqen Acturics Pty Ltd (trading as ZAQ Consultants and Acturics) using the Projected Unit Credit Funding Method.</p> <p>The full liability has been recognised as at the date of Statement of Financial Position. The Liability as at the reporting date is R 24 587 000</p> <p>Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):</p> <p><b>Long Service Award</b></p> <p>The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and retirement gift determined by reference to length of service. The most recent actuarial valuation was performed on the 30 June 2019 by Zaqen Acturics Pty Ltd (trading as ZAQ Consultants and Acturics) using the Projected Unit Credit Method. The full liability has been recognised as at the date of the statement of financial position. The liability as at the reporting date is R 6 272 000</p>		
<b>7. Receivables from exchange transactions</b>		
Eskom Deposit	3,646,368	3,500,000
Interest Receivables	909,491	782,358
Sundry Debtors	1,251,229	2,321,193
	<b>5,807,088</b>	<b>6,603,551</b>
Non-current assets	3,646,368	3,500,000
Current assets	2,160,720	3,103,551
	<b>5,807,088</b>	<b>6,603,551</b>
<b>8. Receivables from non-exchange transactions</b>		
Fines	15,228,864	4,970,083
<b>Reconciliation of provision for impairment of receivables from non-exchange transactions</b>		
Opening balance	4,970,083	16,118,494
Provision for impairment	10,258,781	-
Prior Year	-	(10,717,343)
Amount received	-	(431,068)
	<b>15,228,864</b>	<b>4,970,083</b>
<b>9. VAT receivable</b>		
VAT	2,368,340	5,096,942



# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>10. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	115,856,726	92,964,325
Electricity	18,603,299	18,865,264
Refuse	5,226,602	4,194,955
Housing rental	1,005,715	754,960
Sundry debtors	1,226,850	899,329
	<b>141,919,192</b>	<b>117,678,833</b>
<b>Less: Allowance for impairment</b>		
Rates	(38,920,564)	(34,599,709)
Electricity	(7,174,462)	(6,191,367)
Refuse	(2,398,083)	(1,751,504)
Housing rental	(666,776)	(354,173)
Sundry debtors	(659,328)	(408,511)
	<b>(49,819,213)</b>	<b>(43,305,264)</b>
<b>Net balance</b>		
Rates	76,936,162	58,364,616
Electricity	11,428,837	12,673,897
Refuse	2,828,519	2,443,451
Housing rental	338,939	400,787
Sundry debtors	567,522	490,818
	<b>92,099,979</b>	<b>74,373,569</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	19,157,133	19,188,260
Refuse	5,359,416	4,291,927
Sundry Debtors	1,009,982	806,034
Legal Cost	7,352	8,049
Housing rental	1,117,695	759,910
	<b>26,651,578</b>	<b>25,054,180</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	97,966,358	81,889,744
<b>Net balance</b>	<b>124,617,936</b>	<b>106,943,924</b>
<b>Rates</b>		
Current (0 -30 days)	9,886,489	8,604,524
31 - 60 days	5,637,939	6,046,563
61 - 90 days	3,812,546	2,792,535
91 - 150 days	2,973,790	1,883,706
151 - 365 days	2,777,666	1,569,204
> 365 days	93,582,524	37,468,084
	<b>118,670,954</b>	<b>58,364,616</b>

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>10. Consumer debtors (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	5,883,635	5,717,178
31 - 60 days	1,460,841	1,612,372
61 - 90 days	495,594	374,423
91 - 150 days	255,560	286,781
151 - 365 days	387,396	209,212
> 365 days	14,918,276	6,265,670
	<b>23,401,302</b>	<b>14,465,636</b>
<b>Refuse</b>		
Current (0 -30 days)	661,035	628,327
31 - 60 days	270,761	251,674
61 - 90 days	183,950	142,088
91 - 150 days	163,619	104,798
151 - 365 days	151,193	83,050
> 365 days	4,302,758	1,913,513
	<b>5,733,316</b>	<b>3,123,450</b>
<b>Housing rental</b>		
Current (0 -30 days)	73,204	54,030
31 - 60 days	39,390	31,817
61 - 90 days	34,507	18,992
91 - 150 days	33,769	13,589
151 - 365 days	33,458	1,104
> 365 days	839,162	398,829
	<b>1,053,490</b>	<b>518,361</b>
<b>Sundry debtors</b>		
Current (0 -30 days)	60,792	46,229
31 - 60 days	306,007	18,873
61 - 90 days	12,046	6,131
91 - 150 days	7,973	5,597
151 - 365 days	6,283	3,622
> 365 days	831,829	(2,178,946)
	<b>1,224,930</b>	<b>(2,098,494)</b>

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>10. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Net Balance</b>		
Rates	73,843,586	58,364,616
Electricity	12,911,135	14,465,636
Refuse	3,035,463	3,123,450
Housing	538,656	518,361
Other (Specify)	1,771,139	(2,098,494)
	<b>92,099,979</b>	<b>74,373,569</b>
<b>Less: Allowance for impairment</b>		
Rates	(40,367,710)	(34,599,709)
Electricity	(6,245,998)	(4,399,628)
Refuse	(2,323,954)	(1,071,505)
Housing Rental	(406,181)	(236,599)
Other	(475,370)	(2,997,823)
	<b>(49,819,213)</b>	<b>(43,305,264)</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(43,305,264)	(36,432,789)
Reversal of allowance	(6,513,949)	(6,872,475)
	<b>(49,819,213)</b>	<b>(43,305,264)</b>

## 11. Cash and cash equivalents

Cash and cash equivalents consist of Absa Bank Limited - 4063796636 , Bank Statement Balance at year end (Primary Account) R 12 130 832. The Municipality has various short term deposits to the value of R 12 005 356 that are listed in the short term deposit register:

Cash on hand	2,000	2,210
Bank balances	13,247,823	3,678,399
Short-term deposits	12,005,356	8,304,797
	<b>25,255,179</b>	<b>11,985,406</b>

## The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
ABSA BANK - 4063796636	12,130,832	3,396,024	7,108,083	13,247,822	3,680,609	10,677,204
ABSA BANK - Traffic 9264784869	198,896	65,341	98,507	-	-	-
<b>Total</b>	<b>12,329,728</b>	<b>3,461,365</b>	<b>7,206,590</b>	<b>13,247,822</b>	<b>3,680,609</b>	<b>10,677,204</b>

## 12. Revaluation reserve

Opening balance	-	127,470,628
Derecognition of Revaluation Reserve	-	(127,470,628)
	<b>-</b>	<b>-</b>

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>13. Housing Operating Account</b>		
Opening Balance	-	15,108,143
Derecognition of Loans extinguished by Government on the 1 April 1998	-	(15,108,143)
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	1,470,270	1,452,547
- in second to fifth year inclusive	2,540,914	3,927,761
- later than five years	(539,439)	(793,894)
<b>Present value of minimum lease payments</b>	<b>3,471,745</b>	<b>4,586,414</b>
<b>Present value of minimum lease payments due</b>		
- within one year	1,204,406	1,101,058
- in second to fifth year inclusive	2,267,339	3,485,356
	<b>3,471,745</b>	<b>4,586,414</b>
Non-current liabilities	2,267,339	3,485,356
Current liabilities	1,204,406	1,101,061
	<b>3,471,745</b>	<b>4,586,417</b>
It is municipality policy to lease certain motor vehicles and equipment under finance leases.		
The average lease term was 4-5 years.		
Interest rates of 8,5% (2018 - 8,5%) are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.		
The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.		
<b>15. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Provincial - Cedara College/ Khanya Village Road	414,220	414,220
Mandela capture site phase	-	3,391,068
MAP Synergistic Partnership	250,345	326,031
Integrated National Electricity Programme Grant	-	-
Massification grant	135,115	135,115
Nodal Plan and Land Scheme Grant	1,229,074	-
Title Deeds Grant	1,149,787	-
MIG	2,859,214	-
Sport and Recreation Maintenance Grant	38,480	-
	<b>6,076,235</b>	<b>4,266,434</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	4,266,434	1,168,989
Additions during the year	112,624,994	3,097,445
Income recognition during the year	(110,815,193)	-
	<b>6,076,235</b>	<b>4,266,434</b>

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>15. Unspent conditional grants and receipts (continued)</b>		
See note 31		
<b>16. Annuity loans</b>		
<b>Designated at Amortised value</b>		
Annuity loans	20,672,205	23,820,678
Terms and conditions		
<b>Summary of Annuity</b>		
DBSA - Account Number 61003296	5,073,772	5,766,333
DBSA - Account Number 61000591	965,696	1,257,074
DBSA - Account Number 61000576	10,632,738	11,463,938
Terms and conditions		
ABSA - Account Number 302200978	3,999,999	5,333,333
Terms and conditions		
	<b>20,672,205</b>	<b>23,820,678</b>

The loans attract interest at a rates between 5% to 14% per annum and are being redeemed half yearly.

<b>Non-current liabilities</b>		
At amortised cost	16,892,641	20,184,872
<b>Current liabilities</b>		
At amortised cost	3,779,564	3,635,806

### 17. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Movement	Total
Environmental rehabilitation	37,455,388	2,476,404	39,931,792

#### Reconciliation of provisions - 2018

	Opening Balance	Movement	Total
Environmental rehabilitation	31,418,777	6,036,611	37,455,388

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>18. Payables from exchange transactions</b>		
Payments received in advanced	16,241,789	10,734,810
Unclaimed deposits	6,820,265	5,242,530
Accruals	24,174,752	16,874,096
Accrued expense - DBSA accrude interest	439,824	487,241
Retentions	2,443,306	3,171,303
Other sundry creditors	2,031,253	2,694,736
Salary Creditors	658	-
Salary Provision	-	818,697
Operating Lease	14,853	4,882
Leave Accruals	9,534,791	9,272,305
	<b>61,701,491</b>	<b>49,300,600</b>
<b>19. Consumer deposits</b>		
Electricity	1,874,688	1,722,711
The Municipality charges electricity deposit to all new customers for electricity connection. The deposit is refunded to the customer on termination of service.		
<b>20. Revenue</b>		
Service charges	73,941,107	69,773,178
Rental of facilities and equipment	1,078,031	703,996
Licences and permits	3,522,882	3,612,136
Commissions received	74,439	60,402
Other income	4,072,046	5,110,635
Interest received - investment	2,266,918	1,867,601
Property rates	190,156,246	176,699,785
Property rates - Penalties imposed and collection charges	10,917,488	8,598,498
Government grants & subsidies	104,809,986	99,212,555
Fines, Penalties and Forfeits	870,110	2,451,150
	<b>391,709,253</b>	<b>368,089,936</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	73,941,107	69,773,178
Rental of facilities and equipment	1,078,031	703,996
Licences and permits	3,522,882	3,612,136
Commissions received	74,439	60,402
Other income	4,072,046	5,110,635
Interest received - investment	2,266,918	1,867,601
	<b>84,955,423</b>	<b>81,127,948</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	190,156,246	176,699,785
Property rates - Penalties imposed and collection charges	10,917,488	8,598,498
<b>Transfer revenue</b>		
Government grants and subsidies	104,809,986	99,212,555
Fines, Penalties and Forfeits	870,110	2,451,150
	<b>306,753,830</b>	<b>286,961,988</b>

## uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

	2019	2018
<b>27. Property rates</b>		
<b>Rates received</b>		
Residential	124,011,113	112,401,053
Commercial	32,185,548	32,280,639
State	3,080,068	2,734,965
Small holdings and farms	9,469,725	9,710,066
Education and state	396,743	378,229
Industrial Properties	7,261,993	6,711,646
Vacant Land	10,505,450	9,048,819
Private open space	3,245,606	3,434,368
Income received	190,156,246	176,699,785
Property rates - Penalties imposed and collection charges	10,917,488	8,598,498
	<b>201,073,734</b>	<b>185,298,283</b>
<b>Valuations</b>		
Residential	6,497,882,500	7,270,291,500
Commercial	3,082,957,000	2,962,045,000
Education	2,236,858,000	1,164,766,000
Municipal	284,485,325	282,931,325
Place of worship	232,764,000	-
Agriculture	3,848,934,000	3,844,546,000
Private open space	26,944,000	26,944,000
State	283,006,000	283,006,000
	<b>16,493,830,825</b>	<b>15,834,529,825</b>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 31 July 2019 (31 July 2018). Interest is levied at 1% on rates outstanding one month after due date.

The new general valuation will be implemented on the 01 July 2020.

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>21. Service charges</b>		
Sale of electricity	66,739,185	63,056,332
Refuse removal	7,201,922	6,716,846
	<b>73,941,107</b>	<b>69,773,178</b>
<p>The estimated Distribution loss R 74 880 427 (2018: R67 520 654) is noted . There were 34 000 834 electricity kilowatts issued, But 87 871 645 kilowatts purchased resulting in a loss of 53 870 811 @R 1.39 that makes an amount of R74 880 4277 (61%) loss .</p> <p>The Municipality is applying its credit control and Debt collection policy and by-laws in an effort to reduce losses, however the losses are of a technical nature and illegal connections.The municipality is busy investing strategies to further reduce the losses</p>		
<b>22. Rental of facilities and equipment</b>		
Premises		
Premises	1,078,031	703,996
<b>23. Fines, Penalties and Forfeits</b>		
Municipal Traffic Fines	870,110	2,451,150
<b>24. Licences and permits</b>		
Road and Transport	1,360,879	1,464,550
Market Porters	35,127	41,038
Licences and permits	2,126,876	2,106,548
	<b>3,522,882</b>	<b>3,612,136</b>
<b>25. Other income</b>		
Compound rental	62,074	4,643
Building plan fees and drainage fees	2,159,833	3,590,776
Reconnection fee	11,267	88,453
Hall hire	157,302	163,487
Burial fees	217,051	35,900
Advertising	155,154	263,992
Parking Fees	5,823	19,382
LGSETA receipts	185,624	104,140
Sponsorship received	518,028	461,019
Insurance claim received	132,839	-
Sundry income	168,543	105,499
Rates certificate income	298,508	273,344
	<b>4,072,046</b>	<b>5,110,635</b>
<b>26. Interest revenue</b>		
Interest revenue		
Other financial assets	2,266,918	1,867,601



# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>28. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	60,165,000	54,457,614
Nodal Plan and Land Scheme Grant	270,926	-
Sport and Recreation Maintenance Grant	11,520	-
Integrated National Electricity	8,000,000	5,000,000
Finance Management Grant	1,770,000	1,984,009
MAP Synergistic Partnership	75,686	-
Museum Grant	192,000	183,000
Library staffing costs	3,746,000	3,150,000
Expanded public works grant	1,000,000	1,000,000
	<b>75,231,132</b>	<b>65,774,623</b>
<b>Capital grants</b>		
Capital Grants	29,578,854	33,437,932
	<b>75,231,132</b>	<b>65,774,623</b>
	<b>29,578,854</b>	<b>33,437,932</b>
	<b>104,809,966</b>	<b>99,212,555</b>
<b>Finance Management Grant</b>		
Balance unspent at beginning of year	-	284,009
Current-year receipts	1,770,000	1,700,000
Conditions met - transferred to revenue	(1,770,000)	(1,984,009)
	<b>-</b>	<b>-</b>
<b>Provincial - Cedara College / Khanya Village Road</b>		
Balance unspent at beginning of year	414,220	414,220
Current-year receipts	-	-
	<b>414,220</b>	<b>414,220</b>
<b>Municipal Infrastructure Grant</b>		
Current-year receipts	22,646,000	23,379,000
Conditions met - transferred to revenue	(19,786,769)	(23,379,000)
	<b>2,859,231</b>	<b>-</b>

## uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

	2019	2018
<b>28. Government grants and subsidies (continued)</b>		
<b>Mandela Capture Site - Phase 2</b>		
Balance unspent at beginning of year	3,391,068	-
Current-year receipts	6,401,000	13,450,000
Conditions met - transferred to revenue	(9,792,068)	(10,058,932)
	<u>-</u>	<u>3,391,068</u>
<b>Provincial Library Extensions</b>		
Current-year receipts	3,746,000	3,150,000
Conditions met - transferred to revenue	(3,746,000)	(3,150,000)
	<u>-</u>	<u>-</u>
<b>MAP Synergistic Partnership</b>		
Balance unspent at beginning of year	326,031	335,645
Current-year receipts	-	-
Conditions met - transferred to revenue	(75,686)	(9,614)
	<u>250,345</u>	<u>326,031</u>
Conditions still to be met - remain liabilities (see note 15).		

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>28. Government grants and subsidies (continued)</b>		
<b>Housing Grant</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	1,631,525	-
Conditions met	(1,631,525)	-
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 15).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Integrated National Electricity Programme Grant</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	8,000,000	5,000,000
Conditions met - transferred to revenue	(8,000,000)	(5,000,000)
Other	-	-
	<u>-</u>	<u>-</u>
<b>Museum Howick</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	192,000	183,000
Conditions met - transferred to revenue	(192,000)	(183,000)
Other	-	-
	<u>-</u>	<u>-</u>
<b>Nodal Plan and Scheme Support</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	1,500,000	-
Conditions met - transferred to revenue	(270,926)	-
	<u>1,229,074</u>	<u>-</u>
<b>Expanded Public Works Program</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,000,000)
	<u>-</u>	<u>-</u>
<b>Massification</b>		
Balance unspent at beginning of year	135,115	135,115

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>29. Employee related costs</b>		
Basic	66,777,367	62,669,432
13th Cheque	4,884,302	4,246,604
Medical aid - company contributions	5,325,020	4,999,904
UIF	499,377	499,264
WCA	630,953	685,176
SDL	941,115	872,557
Leave pay provision charge	5,086,760	6,762,625
Other short term costs - Stipend	814,294	892,886
Pension Fund Contributions	10,943,815	11,543,895
Overtime payments	6,461,450	5,858,725
Long-service awards	643,073	-
Acting allowances	294,926	-
Car allowance	3,866,315	3,858,928
Housing benefits and allowances	459,867	614,808
Cellphone Allowance	288,750	312,200
Standby Allowance	209,156	134,480
	<b>108,126,540</b>	<b>103,951,484</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	1,348,869	853,175
Cellphone Allowance	24,000	16,000
Re-imbursive Travel	64,599	10,560
	<b>1,437,468</b>	<b>879,735</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	722,795	685,763
Car Allowance	518,994	492,404
Cellphone Allowance	18,000	18,000
RE-imbursive Travel	19,832	14,059
	<b>1,279,621</b>	<b>1,210,226</b>
<b>Remuneration of General Manager Technical Services</b>		
Annual Remuneration	-	613,517
Car Allowance	-	140,238
Other	-	12,000
Other	-	100,701
	<b>-</b>	<b>866,456</b>
<b>Remuneration of General Manager Community Services</b>		
Annual Remuneration	954,248	905,358
Car Allowance	221,752	210,391
Cellphone Allowance	18,000	18,000
Re-imbursive Travel	5,752	20,540
	<b>1,199,752</b>	<b>1,154,289</b>
<b>Remuneration of General Manager Planning and Development</b>		
Annual Remuneration	961,638	912,370
Car Allowance	214,361	203,379

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>29. Employee related costs (continued)</b>		
Cellphone Allowance	18,000	18,000
	<u>1,193,999</u>	<u>1,133,749</u>
<b>Remuneration of General Manager Corporate Services Department</b>		
Annual Remuneration	1,178,500	905,358
Car Allowance	221,752	210,391
Performance Bonuses	-	93,340
Cellphone Allowance	18,000	18,000
Re-imbursive Travel	91,919	97,204
	<u>1,510,171</u>	<u>1,324,293</u>
<b>30. Remuneration of councillors</b>		
Mayor's allowance	898,618	867,214
Deputy Mayor allowance	730,652	705,529
Speaker	730,652	729,086
Councillors allowance	6,352,720	6,612,444
	<u>8,712,642</u>	<u>8,914,273</u>
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	51,083,838	44,717,566
Investment property	117,961	265,702
Intangible assets	110,792	106,976
	<u>51,312,591</u>	<u>45,090,244</u>
<b>32. Finance costs</b>		
Interest on borrowings	2,326,798	2,629,867
Interest on overdue accounts	7,911	5,312
	<u>2,334,709</u>	<u>2,635,179</u>
<b>33. Debt Impairment</b>		
Debt impairment- consumer debtors	<u>16,879,891</u>	<u>16,667,786</u>
<b>34. Bulk purchases</b>		
Electricity - Eskom	<u>107,297,746</u>	<u>104,708,075</u>
<b>35. Contracted services</b>		
<b>Outsourced Services</b>		
Landfill Site Maintenance	9,969,880	8,193,000
Security Services	10,556,913	9,007,079
Electrical	4,825,037	5,738,412
Outsourced Services	<u>25,351,830</u>	<u>22,938,491</u>

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>36. General expenses</b>		
Medical expenses	-	4,740
Advertising	711,771	601,805
Auditor's remuneration	1,889,002	1,691,920
Bank Charges	1,134,276	1,059,186
Other Materials	624,909	652,675
TMT Expenditure	-	1,543,859
Computer Support	2,832,360	3,107,445
Professional Fees	8,890,013	5,160,480
Discount Allowed	1,540,469	-
Lease rentals on operating lease	737,349	716,760
Hiring of Plant	2,269,372	1,787,038
Insurance	709,318	343,206
Community development and training	963,433	2,031,331
Computer Services	630,477	727,523
Lease on Vehicles	1,170,026	997,399
Magazines, books and periodicals	62,733	34,484
Motor vehicle expenses	299,119	347,477
Fuel and oil	3,487,023	2,228,015
Rental-Leased Property	253,791	241,747
Postage and courier	1,653,474	1,716,387
Printing and stationery	429,709	366,577
Repairs and maintenance	18,967,528	31,449,250
Subscriptions and membership fees	2,803,370	1,310,515
Telephone and fax	1,109,594	1,070,760
Training	866,832	1,252,127
Travel - local	637,379	1,083,706
Hygiene services	272,163	240,256
Electricity	7,579,951	6,689,729
Sewerage and waste disposal	1,326,471	477,985
Uniforms	564,345	370,569
Study Assistance (Employees)	76,020	70,540
Pauper Burials	10,000	41,547
Agency Fees	2,072	404
Ward Committees	1,245,686	812,085
New Electricity Connections	6,786,993	3,080,124
Electricity connections	201,320	106,690
Contribution to fire fighting services	366,393	405,938
Veterinary department	391,070	867,989
Feasibility Study	101,549	232,111
Disaster Management	270,086	219,698
Valuation expenses	955,286	2,063,142
	<b>74,822,732</b>	<b>77,205,219</b>
<b>37. Auditors' remuneration</b>		
Fees	1,889,002	1,691,920

## uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

	2019	2018
<b>38. Cash generated from operations</b>		
Deficit	(5,039,663)	(16,138,292)
<b>Adjustments for:</b>		
Depreciation and amortisation	51,312,591	45,090,244
Increase in contribution to bad debt provision	2,584,939	16,667,786
Movements in retirement benefit assets and liabilities	1,363,000	2,777,000
Movements in provisions	2,476,404	6,596,202
Other non-cash items	-	-
Other non-cash items	-	41,756,209
<b>Changes in working capital:</b>		
Receivables from exchange transactions	942,831	15,157,899
Consumer debtors	(17,726,410)	(26,915,054)
Other receivables from non-exchange transactions	(11,411,208)	431,068
Operating Lease	-	(3,630,773)
VAT payable	12,400,891	(9,900,581)
VAT payable	2,728,602	(3,633,862)
VAT receivable	-	3,097,445
Consumer deposits	-	(712,014)
Unspent Grant	1,809,801	14,233,064
	<b>41,441,778</b>	<b>84,876,341</b>

### 39. Financial instruments disclosure

#### Categories of financial instruments

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
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### 39. Financial instruments disclosure (continued)

#### 2019

##### Financial assets

	At fair value	Total
Trade and other receivables from non-exchange transactions	15,228,864	15,228,864
Consumer Debtors	92,099,979	92,099,979
Vat Receivables	2,368,340	2,368,340
Receivable from non-exchange transactions - non-current assets	5,807,088	5,807,088
Cash and Cash Equivalents	25,255,179	25,255,179
	<b>140,759,450</b>	<b>140,759,450</b>

##### Financial liabilities

	At fair value	At amortised cost	At cost	Total
Consumer Deposits	1,874,688	-	-	1,874,688
Annuity Loans	-	20,672,205	-	20,672,205
Finance Leases	-	3,471,745	-	3,471,745
Trade and other payables from exchange transactions	-	-	61,701,491	61,701,491
Unspent Conditional Grants	-	-	6,076,235	6,076,235
	<b>1,874,688</b>	<b>24,143,950</b>	<b>67,777,726</b>	<b>93,796,364</b>

#### 2018

##### Financial assets

	At fair value	Total
Trade and other receivables from Non - exchange transactions	4,970,083	4,970,083
Receivables from Exchange	6,603,551	6,603,551
Vat Receivables	5,096,942	5,096,942
Cash and Cash Equivalents	11,985,406	11,985,406
Consumer Debtors	74,373,569	74,373,569
	<b>103,029,551</b>	<b>103,029,551</b>

##### Financial liabilities

	At fair value	At amortised cost	At cost	Total
Consumer Deposits	1,722,711	-	-	1,722,711
Annuity Loans	-	23,820,678	-	23,820,678
Finance Leases	-	4,586,417	-	4,586,417
Trade and Other Payables from Exchange Transactions	-	-	49,300,600	49,300,600
Unspent Conditional Grants	-	-	4,266,434	4,266,434
	<b>1,722,711</b>	<b>28,407,095</b>	<b>53,567,034</b>	<b>83,696,840</b>



# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>40. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and Contracted for</b>		
• Mandela capture site	-	4,327,786
• Midlands Road and Stormwater	-	7,910,930
• Hilton, Howick and Merrivale Roads and Rehabilitation	-	1,779,275
• Road and Stormwater (Ward 11)	-	1,429,470
• Road and Stormwater (Ward )	-	1,765,408
• Road and Stormwater (Ward 9)	-	2,409,666
• Road and stormwater (Ward 10)	-	2,308,426
• Midlands Road Phase 5 (Chris Hani) ULM 06/2019	1,463,264	-
• Midlands Roads ( Mthembu, Ndlovu & Sweet Value) ULM 05/2019	2,537,669	-
• Mpophomeni Roads (Shayamoya) ULM 03/2019	1,442,715	-
• Khanya Village & intersection ULM 04/2019	1,453,495	-
• Rehabilitation of uMngeni Roads ULM11/2019	161,179	-
• Rehabilitation of uMngeni Roads ULM 12/2019	412,650	-
• Rehabilitation of uMngeni Roads ULM 13/2019	39,582	-
• Rehabilitation of uMngeni Roads ULM 01/2019	1,925,240	-
• Construction of Lions River Community Hall ULM02/2019	3,376,687	-
	<b>12,812,481</b>	<b>21,930,961</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Midlands Access Road	8,009,284	10,646,000
• Mpophomeni Road Rehabilitation	24,327,766	12,000,000
• Mandela Capture Site	-	500,000
	<b>32,337,050</b>	<b>23,146,000</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	12,812,481	21,930,961
Not yet contracted for and authorised by accounting officer	32,337,050	23,146,000
	<b>45,149,531</b>	<b>45,076,961</b>
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	45,149,531	45,076,961
<b>Operating expenditure</b>		
The Municipality entered into agreements with various suppliers:	18,516,885	23,808,841

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>41. Contingencies</b>		
	<b>1,660,000</b>	<b>1,729,000</b>
Transnet Soc Ltd trading as Transnet Freight Rail	100,000	100,000
Zanele Princess Nxumalo	-	50,000
SAMWU	100,000	100,000
Mafuludi Dlamini and others	160,000	160,000
S Ndlela	-	50,000
Taxi Mpophomeni	50,000	50,000
Department of Labour -Fine	100,000	100,000
FE Currie / DP Zondi Boundary Wall	10,000	10,000
ERF 3677 - 3688 Howick	60,000	60,000
Mohlo J Zuma	50,000	50,000
ERF 110 - 150 Mpophomeni B	50,000	50,000
EPWP Workers	300,000	300,000
Narian Naidoo and Associates	-	300,000
Jack Zuma	-	20,000
Nomaliza Kweyama Prudence	-	30,000
Nxumalo Thobelani Andrew	-	50,000
Dube Catherine Bongli	-	30,000
Dlamini Nomusa Precious	-	30,000
Madlala Sibusiso PraiseGod	-	25,000
Zuma Murriel Zodwa	-	60,000
Ntombela Winston Mduduzi	-	4,000
Messrs Franklin and Moffett	100,000	100,000
Erf 2356 Howick West - Zanele Princess	50,000	-
Gowrie Farm Homeowners Association	100,000	-
Illegal Structures Ref :01/U002/066	80,000	-
Narrian Naidoo and Associates	350,000	-

### Contingent Liabilities

uMngeni Municipality vs Consultant Company (ERF 3677 - 3688), the municipality sought legal advice against consultant company which failed to install services at a developed site (estimated attorney and client legal cost is R60 000).

uMngeni Municipality vs Mafuludi Dlamini and Others, the municipality brought eviction proceedings against illegal occupiers on a school site at Tumbleweed Farm. The Municipality is in the process of providing housing to the illegal squatters (estimated attorney and client legal cost is R100 000 and R60 000 to pay other side if the Municipality lose case).

uMngeni Municipality vs Transnet Soc Ltd T/A Transnet Freight Rail / occupiers of Nottingham Road informal settlement and others, transnet instituted legal proceedings to evict illegal occupiers and for the Municipality to relocate illegal occupiers (estimated attorney and client legal cost is R100 000).

uMngeni Municipality vs Mohlo Jack Zuma- Encroachment on Municipal Land in Mpophomeni, the Municipality instituted legal proceedings to order the removal of an encroaching structure on municipal land. (Estimated Attorney and client legal cost is R150 000).

uMngeni Municipality vs Zanele Princess and illegal Occupiers (ERF 2356 Howick West), the Municipality instituted legal proceedings to evict illegal occupiers in a building that is to be used by a Councilor (estimated attorney and client cost is R50 000)

uMngeni Municipality vs ERF 110 to ERF 150 Mpophomeni B, a possible PIE application to evict illegal occupiers of Municipal land (estimated attorney and client cost is R50 000)

uMngeni Municipality vs EPWP workers, contempt order application against the Municipality and review of settlement (estimated attorney and client legal cost is R100 000 and R200 000 if matter lost)

uMngeni Municipality vs Taxi Rank Mpophomeni, illegal construction of building on road verge (estimated attorney and client legal cost is R50 000)

## **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

### **Notes to the Annual Financial Statements**

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2019

2018

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#### **41. Contingencies (continued)**

uMngeni Municipality vs Department of Labour- Fine, Department of Labour launched application at the labour court to direct Municipality to pay R1 500 000 for non-submission of employment equity reports (estimated attorney and client legal cost is R100 000)

uMngeni Municipality vs Messrs Franklin and Moffett- Portion 60 of the Farm Driefonteinen , sub division of property into four portions building works commenced without proper planning approval having been granted (estimated attorney and client legal cost is R100 000)

uMngeni Municipality vs Gowrie Farm Homeowners Association :Plant - the contested planning application with interested and affected parties attempting to block the planning application and threatening action against the Municipality (estimated cost is R 100 000).

uMngeni Municipality vs Illegal Structures Ref: 01/U002/006 - Municipality sought the removal of illegal houses built on Municipal land (the estimated cost is R 80 000).

uMngeni Municipality vs FE Currie /DP Zondi - Boundary Wall (Ref: 01/U002/048) application launched at the High Court, dispute regarding the construction of a boundary wall (estimated cost if R 10 000).

uMngeni Municipality vs Narrian Naidoo and Associates instituted summons against the Municipality of the sum of R242 058.77 in respect of services rendered to the Municipality, settlement proposal has been sent to client for consideration. Estimated cost is R350 000

## **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

### **Notes to the Annual Financial Statements**

	2019	2018
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#### **42. Related parties**

**Remuneration of management**

**Mayoral committee members**

# **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Notes to the Annual Financial Statements**

2019

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### **42. Related parties (continued)**

#### **Councillors/Mayoral committee members**

##### **2019**

	Basic salary	Travel Allowance	Cellphone Allowance	Re-imbursive Travel	Total
<b>Name</b>					
Mayoral committee members	1,941,925	647,308	174,000	54,874	2,763,234
Councillors	3,842,865	1,280,956	825,587		5,949,408
	<b>5,784,790</b>	<b>1,928,264</b>	<b>999,587</b>	<b>54,874</b>	<b>8,712,642</b>

##### **2018**

	Basic salary	Travel Allowance	Cellphone Allowance	Total
<b>Name</b>				
Mayoral committee members	1,922,550	640,850	221,113	2,857,489
Councillors	3,746,945	1,262,326	1,047,513	6,056,784
	<b>5,669,495</b>	<b>1,903,176</b>	<b>1,268,626</b>	<b>8,914,273</b>

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

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### 42. Related parties (continued)

#### Executive management

##### 2019

Name	Basic salary	Cellphone Allowance	Re-imbursive Travel	Car Allowance	Total
Municipal Manager	1,348,869	24,000	64,599	-	1,437,468
Chief Financial Officer	722,795	18,000	19,832	518,994	1,279,621
GM - Community Services	954,248	18,000	5,752	221,752	1,199,752
GM-Planning	961,638	18,000	-	214,361	1,193,999
GM - Corporate	1,178,500	18,000	91,919	221,752	1,510,171
	<b>5,166,050</b>	<b>96,000</b>	<b>182,102</b>	<b>1,176,859</b>	<b>6,621,011</b>

### 43. Prior period errors

The correction of the error(s) results in adjustments as follows with a increase in accumulated asurplus of R- 529 161 974:

#### Statement of financial position

Increase in Land	-	34,670,595
Increase in Buildings	-	57,184,880
Increase in Machinery and Equipment	-	1,507,703
Decrease in Furniture and Fitting	-	(619,086)
Decrease in Motor Vehicles	-	(989,774)
Increase in Computer Equipment	-	85,106
Increase in Electricity	-	72,968,357
Increase in Roads and Stormwater	-	372,728,425
Increase in Intangible Assets	-	15,428
Increase in lease vehicles	-	3,562
Decrease in Work in Progress	-	(3,763,293)
Decrease in Accumulated Surplus	-	10,717,343
Decrease in Trade and other Payables	-	(6,087,413)
Increase in Accumulated Surplus	-	(529,161,974)

### 44. Prior Period Continuation

Presented below are those items contained in the statement of financial position that have been affected by prior-year adjustments:

#### Statement of financial position

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 44. Prior Period Continuation (continued)

#### 2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Land		124,626,348	34,670,595	-	159,296,943
Buildings		50,732,745	57,146,797	-	107,879,542
Machinery and equipment		1,191,844	-	1,507,703	2,699,547
Furniture and Fittings		2,528,018	-	(619,086)	1,908,932
Motor Vehicles		3,171,549	-	(989,774)	2,181,775
Computer Equipment		1,615,995	-	85,106	1,701,101
Electrical		44,136,908	72,968,357	-	117,105,265
Roads and Stormwater		429,678,332	372,728,425	-	802,406,757
Leased Vehicles		4,580,711	3,562	-	4,584,273
Intangibles		214,325	-	15,428	229,753
Work in Progress		103,348,392	(3,763,293)	-	99,585,099
Receivables from non-exchange transactions		35,380,898	(6,087,413)	-	29,293,485
Receivables from non-exchange transactions		15,687,426	(10,717,343)	-	4,970,083
		<b>816,893,491</b>	<b>516,949,687</b>	<b>(623)</b>	<b>1,333,842,555</b>

#### 2019

	Note	As previously reported	Restated
Land		159,296,943	159,296,943
Buildings		107,917,625	107,917,625
Machinery and Equipment		2,699,547	2,699,547
Furniture and Fittings		1,908,932	1,908,932
Motor Vehicles		2,181,775	2,181,775
Computer Equipment		1,701,101	1,701,101
Electrical		44,158,350	44,158,350
Roads and Stormwater		802,406,757	802,406,757
Leased Vehicles		4,584,273	4,584,273
Intangibles		229,753	229,753
		<b>1,127,085,056</b>	<b>1,127,085,056</b>

Land has increased due to newly identified asset

Buildings has increased due to newly identified asset and componentisation

Machinery and Equipment has increased due to transfers from Motor vehicles and Furniture and Fittings

Furniture and Fittings has decreased due to transfers to Machinery and equipment and computer equipment

Motor Vehicles has decreased due to transfers to Machinery and equipment

Computer equipment has increased due to transfer from furniture and fittings and machinery and equipment.

Electricity has increased due to the change in estimated useful lives (accumulated depreciation) resulting from the componentisation of asset

Roads has increased due to the change in estimated useful lives (accumulated depreciation) resulting from the componentisation of asset

Intangibles have increased due to the transfer from computer equipment asset

Leased Vehicles has increased due to a miss allocation in the system

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 45. Risk management

#### Financial risk management

The Municipality has reviewed and assessed the following main categories of risk as being immaterial:

##### Market Risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, which affect the municipality's income or value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

##### Foreign currency risk:

The municipality's activities do not expose it to financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings - DBSA	2,005,342	9,676,631	4,990,230	-
Borrowings - ABSA	1,333,333	2,666,667	-	-
Trade and other payables	52,166,700	-	-	-
Finance lease obligation	1,204,406	2,267,338	-	-
Provision - Refuse site rehabilitation	-	-	39,931,792	-
Leave Accrual	9,534,790	-	-	-
Employee benefit obligation	1,663,000	29,196,000	-	-
At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings - DBSA	1,814,076	9,044,714	7,628,555	-
Borrowings - ABSA	1,333,333	4,000,000	-	-
Trade and other payables	40,028,295	-	-	-
Finance lease obligation	1,101,058	3,485,356	-	-
Provision - refuse site rehabilitation	-	-	37,455,388	-
Leave Accrual	9,272,305	-	-	-
Employee benefit obligation	1,585,000	27,911,000	-	-



# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 45. Risk management (continued)

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Receivables from exchange transactions - debtors	2,160,720	3,103,551
Receivables from non - exchange transactions - debtors	15,228,864	4,970,083
Bank balances - Cash and Cash Equivalents	25,255,179	11,985,406

#### Market risk

#### Interest rate risk

### 46. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had a loss of 5 039 663 (2018: 16 138 293) and had an accumulated surplus of 1,276,163,631 and that the municipality's total assets exceed its liabilities by 1,276,163,631.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are Bi weekly meetings in the form of Interim Finance Committee, to plan and approve only essential expenditure for the forthcoming weeks and to ensure that the unspent conditional grants are moving to a position of being cashed back.

### 47. Unauthorised expenditure

Opening balance as previously reported	29,701,039	-
<b>Opening balance as restated</b>	<b>29,701,039</b>	<b>-</b>
Add Current: Debt Impairment	9,399,107	6,036,610
Add Current: Depreciation and Amortization	18,972,951	7,289,930
Add Current: Bulk Electricity	-	16,355,024
Add Current: Remuneration of Councillors	-	19,475
<b>Closing balance</b>	<b>58,073,097</b>	<b>29,701,039</b>

### 48. Fruitless and wasteful expenditure

Opening balance as previously reported	3,661,214	3,655,856
<b>Opening balance as restated</b>	<b>3,661,214</b>	<b>3,655,856</b>
Interest on penalties on late payment of Electricity	4,364	1,805
KZN Transport	-	3,553
Interest on late payment for telephone account (Telkom)	3,321	-
<b>Closing balance</b>	<b>3,668,899</b>	<b>3,661,214</b>

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>49. Irregular expenditure</b>		
Opening balance as previously reported	29,539,060	28,754,982
<b>Balances</b>	<b>29,539,060</b>	<b>28,754,982</b>
Work Dynamics	-	22,829
Neotal (Pty) Ltd	-	6,184
Nogqaza Funeral	-	62,796
Sabinet Online	-	34,725
Amacebisa MW Projects	-	148,621
Vitus Construction and Other Projects	-	51,600
Phat Joe Projects	-	89,000
PMB Powerproducts	-	30,454
Midlands Safety	-	15,720
Workwear Depot	-	44,678
Mfanekumbi Trading	-	34,891
Mathombazane Trading cc	-	21,250
Nkonazane Trading and Services	-	23,330
Shemuntu and Son	-	198,000
Vodamap	125,485	-
Sunlyn	30,703	-
Media 24 Pty Ltd	7,700	-
Gijima Holding Pty Ltd	34,750	-
<b>Closing balance</b>	<b>29,737,698</b>	<b>29,539,060</b>
<b>Amounts recoverable</b>		
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current Year	-	(784,078)
Prior years	(1,890,645)	(1,106,567)
Condoned	1,890,645	-
	-	(1,890,645)
<b>50. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Audit fees</b>		
Previous year audit fees	1,691,920	1,345,343
Current year subscription / fee	1,889,002	1,691,920
Amount paid - current year	(1,889,002)	(1,691,920)
Amount paid - previous years	(1,691,920)	(1,345,343)
	-	-
<b>PAYE and UIF</b>		
Current year subscription / fee	16,730,741	14,835,107
Amount paid - current year	(16,730,741)	(14,835,107)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	26,739,786	25,488,096
Amount paid - current year	(26,739,786)	(25,488,096)
	-	-

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019

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### 50. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### VAT

VAT receivable	2,368,340	5,096,942
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### 51. Budget differences

#### Material differences between budget and actual amounts

51.1 Service Charges Electricity - This is due to illegal connections, the municipality is currently doing analysis on cost of supply.

51.2 Service Charges Refuse - The municipality received more than the budget because some debtors were paying on time.

51.3 Rental of Facilities - Positive variance because tenants have been honouring their rental in the year under review, the Municipality appointed Attorneys to do evictions.

51.4 Licences and Permits The licensing unit was closed down for a number of months, hence there has been underperformance on this item.

51.5 Other Income - the payment from shared services was not received from other Municipalities.

51.6 Interest on Investments - the municipality had own funds invested other than unspent grants which yielded more interest.

51.7 Property Rates - There were no new developments and improvements as anticipated.

51.8 Penalties - the municipality has been offering a 1% discount on early payments made by ratepayers.

51.9 Government grants and subsidies - The municipality did not receive the full grant for Mandela Capture Site Project..

51.10 Transfers Recognised - As much as there were problems during the year some traffic offenders have been trying to pay for their fines.

51.11 Personnel - the municipality overbudgeted for employee obligations

51.12 Depreciation -infrastructure was underbudgeted for which has resulted in a negative variance

51.13 Finance Costs - The Municipality overbudgeted for this line when preparing its budget.

51.14 Debt Impairment - this has increase because the debtors balance went up as compared to previous year

51.15 Bulk Purchases - this is due to upgrade on energy charge for Mpophomeni township (penalties reduced)

# uMngeni Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
<b>52. SCM deviations</b>		
<b>Deviations</b>	<b>2019</b>	<b>2018</b>
EOH Combined Systems	-	1,204,111
Quick Fix Plumbers	41,975	38,532
Mush Asphalt	22,615	177,357
Castlehill Trading	-	26,722
CMH Vuwani	-	44,840
Prosyscom	105,244	77,155
Sparks and Ellis	1,021	120,904
Vanadana Trading	-	5,000
Malimela Trading	-	15,000
Pietermaritzburg Power Products	62,573	51,268
Lexis and Nexis	-	4,897
The Royal Agricultural Society	10,017	9,913
Mbova Construction	-	1,570,447
Ground Force Security Services	10,261,056	4,333,956
Bhekisgcino Enterprise cc	11,800	-
BZ Siba Plumbing 7 Projects	12,000	-
Ecochill Refrigeration and Airconditioning	11,960	-
Gateway Hydraulics CC	7,570	-
GT Chemicals	8,163	-
Konica Minolta	6,615	-
Mamfemfe Trading	297,500	-
Midlands Power Equipment	2,424	-
Mthathi Enterprise	8,500	-
Ndumiso Contractors	3,294	-
Nosimuzi Building Plumbing and Transport	18,100	-
Nyambisa Construction and Renovation	3,990	-
Shemuntu and Sons	58,020	-
PMB Drawing and Survey Centre CC	5,559	-
	<b>10,959,996</b>	<b>7,680,102</b>

Much Asphalt - sole supplier of tar

Mthathi Enterprise - to clear the sewer blockage at Hilton office

BZ Siba Plumbing 7 Projects - Unblock the sewer mainhole at Impendhle Bus Rank

Quickfix Plumbers - to clear the sewer blockage and public toilets at Mpophomeni Community Hall

Bhekisgcino Trading Enterprise Trading cc - To cut fallen and remove cypress at 6 buchan street

GT Chemicals - Free Guard 25 L, Rags 5KG, Powerkleen 25 L Lano X Grit hand cleaner 5L, Fuchs Brake Fluid Truck wash, Gudus and G Coupler, Sole Supplier

Prosyscom - Mimecast License is hosted by Prosyscom and all configurations were done by them and only prosyscom can do fortigate training

Ndumiso Contractors - Remove damage leftside indoor fan, replace with new fan kit, service Unit , it was urgent

Parks and Ellis - To buy Traffic Uniform , only two companies that does traffic uniform

Nosimuzi Building Plumbing and Trading - To clear blockage at Hilton offices and Blocked Drain , digging and fit main valve pipe and fix the window glasses

Pietermaritzburg Power Product - 1200 BP pre-mix fuel for Stihl brushcutter and chainsaws , sole supplier

Quickfix - To clear sewer blockage, replace taps and sink waste pipe

## **uMngeni Municipality**

Annual Financial Statements for the year ended 30 June 2019

### **Notes to the Annual Financial Statements**

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#### **52. SCM deviations (continued)**

Shemuntu and Son - High pressure jetting unblocked sewer line and unblocking storm water pipes and cct inspection within howick CBD

Nyambisa Construction and Renovation - to install and welding round tube stainless steel

Midlands Power Equipment - to fit mandrel housing for blade of ride-o-mower

Ecohill Refrigeration and Airconditioning - To repair and replace aircon at the saver room

PMB Drawingg and survey Centre cc - printing of tender document

